

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF MCCREARY COUNTY WATER)	
DISTRICT FOR A RATE ADJUSTMENT PURSUANT)	CASE NO.
TO THE ALTERNATIVE RATE FILING PROCEDURE)	90-205
FOR SMALL UTILITIES)	

O R D E R

On July 16, 1990, McCreary County Water District-Sewer Division ("McCreary") filed an application with the Commission seeking to increase its rates for sewer service pursuant to the Alternative Rate Filing Procedure for Small Utilities. The proposed rates were designed to generate approximately \$2,668 annually in additional revenues, an increase of 50 percent over normalized test-year revenues of \$5,336. McCreary also proposed to modify its existing rate design by implementing, in addition to its flat rate, a rate of \$1 per 1,000 gallons of water used.

On July 31, 1990, the Commission notified McCreary that, pursuant to 807 KAR 5:076, Section 4, McCreary's application did not meet the minimum filing requirements set by regulation. McCreary cured this deficiency and met minimum filing requirements on September 10, 1990.

In August of 1990, Commission Staff conducted a field review of McCreary's test-year financial records. Based upon this review and upon information filed by McCreary subsequent to the review, Commission Staff issued its report on September 20, 1990,

recommending that McCreary be authorized to increase its annual operating revenues by \$2,180. The Staff Report also recommended that McCreary's proposed modification of its rate design be denied and that McCreary utilize a flat rate for residential customers and a rate for commercial customers based upon a residential equivalent.

McCreary filed its response to the Staff Report on October 8, 1990. McCreary stated in its response that the Staff Report incorrectly indicated that the sewer system serves 20 residential customers and 1 commercial customer when, in fact, there are a total of 53 residential customers. McCreary reiterated that, as requested in its application, it wishes to charge a flat rate of \$9.94 per month, plus a surcharge in the amount of \$1 for each 1,000 gallons of water used, rather than the flat rate of \$11.82 per month recommended by Commission Staff.

In rejecting the rate design proposed by McCreary, Staff had noted in its report that McCreary did not provide a cost-of-service study nor any other information to justify the proposed change in rate design. Staff's revenue analysis, which was based upon 20 residential customers and 1 commercial customer, revealed that only 23 percent of total revenue generated by the proposed rate design would result from customer usage exceeding the flat rate. It was Staff's position that, because of the limited number of customers supporting the sewer system, the proposed rate design would not provide revenue stability and should be denied. Accordingly, Staff recommended that McCreary

establish a flat rate for residential customers and a rate for commercial customers based on a residential equivalent.

Although McCreary stated in its response to the Staff Report that the rate proposed in its application would be more suited to serve its customers than just a flat rate, it still provided no cost-of-service study nor any other information to justify the proposed change. McCreary is correct in stating that Staff's revenue analysis inaccurately designated the East Pine Knot Manor, a retirement home with 33 individually metered residents, as 1 commercial customer rather than as 33 residential customers. However, Staff's revenue analysis did take into account the 33 individual customers, and was thus based on the correct number of customers. Staff therefore declined to modify the findings and recommendations as to rate design contained in its report. McCreary did not request a public hearing in its response.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds:

1. With the exception of the incorrect description of the East Pine Knot Manor as 1 commercial customer rather than 33 residential customers, the recommendations and findings contained in the Staff Report of September 20, 1990 are supported by the evidence of record, are reasonable, and are hereby adopted as the findings of the Commission in this proceeding and are incorporated by reference as if fully set out herein.

2. The rates in Appendix A, attached hereto and incorporated herein, are the fair, just, and reasonable rates for sewer service provided by McCreary and will produce annual

revenues of \$7,516. These rates will allow McCreary sufficient revenues to meet its operating expenses and provide for future equity growth.

3. The rates proposed by McCreary will produce revenue increases which are unreasonable and thus inconsistent with KRS 278.030.

4. The rate design proposed by McCreary will not provide revenue stability and should therefore be denied.

IT IS THEREFORE ORDERED that:

1. The rates proposed by McCreary in its application are hereby denied.

2. The rates contained in Appendix A are approved for service rendered by McCreary on and after the date of this Order.

3. Within 30 days of the date of this Order, McCreary shall file with the Commission its revised tariff setting out the rates approved herein.

Done at Frankfort, Kentucky, this 6th day of December, 1990.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman

ATTEST:


Executive Director


Commissioner

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 90-205 DATED 12/06/90

The following rates and charges are prescribed for sewer service to customers of the McCreary County Water District-Sewer Division. All other rates and charges not specifically set forth herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

<u>Customer Class</u>	<u>Rate</u>
Residential	\$11.82
Commercial	11.82 per residential equivalent*

- * The number of residential equivalents and/or fractional parts thereof shall be determined by dividing the customers average monthly water consumption in gallons by 12,000 gallons. The minimum bill for this type of service shall be \$11.82.